

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of New Baltimore	County Macomb
Fiscal Year End June 30, 2006	Opinion Date September 26, 2006	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 248-952-5000		
Street Address 5750 New King Street, Suite 200		City Troy	State MI	Zip 48098
Authorizing CPA Signature Thomas E. Darling, CPA <small>Digitally signed by Thomas E. Darling, CPA DN: cn=Thomas E. Darling, CPA, c=US, o=Rehmann Robson, email=tdarling@rehmann.com Date: 2006.12.21 19:04:20 -05'00'</small>		Printed Name Thomas E. Darling, CPA		License Number A246550



**CITY OF NEW BALTIMORE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2006

CITY OF NEW BALTIMORE, MICHIGAN
Basic Financial Statements and Supplementary Information
For the Year Ended June 30, 2006

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REHMANN ROBSON

Certified Public Accountants

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An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

September 26, 2006

To the Honorable Mayor and City Council
City of New Baltimore, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of New Baltimore, Michigan***, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of New Baltimore, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of New Baltimore, Michigan***, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the Street Reconstruction Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2006 on our consideration of the ***City of New Baltimore, Michigan's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 13 and the Schedule of Funding Progress on Page 54 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ***City of New Baltimore, Michigan's*** basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

As management of the *City of New Baltimore, Michigan*, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended June 30, 2006.

Financial Highlights

- Total net assets increased \$1,215,943 as a result of this year's operations. Net assets of our governmental activities increased \$836,982 while business-type activities increased by \$378,961 for the year.
- Total cost of all of the City's programs was \$11,360,846 for the year.
- The General Fund increased in fund balance by \$57,917 to \$1,636,982 at year end. This is attributable primarily to increased State Revenue Sharing and charges for services while controlling expenditures.
- The City had a net increase for investment in capital assets of \$4,198,181 including contributed streets from subdivisions and purchases of land, vehicles and equipment.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, highways and streets, building and planning, culture and recreation, and other functions. The business-type activities of the City include water distribution and sanitary sewer operations.

The government-wide financial statements include not only the City of New Baltimore itself (known as the *primary government*), but also a legally separate downtown development authority, local development financing authority, and an economic development corporation, all of which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund which is considered to be the City's only major fund. Data from the other eighteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* after the *Notes to the Financial Statements*.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General and special revenues funds.

2. **Proprietary funds.** The City maintains two different types of proprietary funds: *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and storm water drainage operations. *Internal Service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its equipment, public service and retiree health care activities. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The water, sewer and storm water funds are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

3. **Fiduciary funds.** The Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of New Baltimore, assets exceeded liabilities by \$57,878,648 at the close of the most recent fiscal year.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

By far the largest portion of the City's net assets (64%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of New Baltimore's Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 8,235,244	\$ 7,336,062	\$ 9,955,821	\$ 18,288,716	\$ 18,191,065	\$ 25,624,778
Capital assets, net	22,645,954	23,162,765	34,079,220	29,364,228	56,725,174	52,526,993
Total assets	30,881,198	30,498,827	44,035,041	47,652,944	74,916,239	78,151,771
Current liabilities	997,597	1,106,612	1,280,870	441,570	2,278,467	1,548,182
Noncurrent liabilities	19,595,288	19,940,884	54,608	-	19,649,896	19,940,884
Total liabilities	20,592,885	21,047,496	1,335,478	441,570	21,928,363	21,489,066
Net assets:						
Invested in capital assets,						
net of related debt	3,237,954	3,285,765	34,079,220	29,364,228	37,317,174	32,649,993
Restricted assets	4,583,074	3,401,122	7,879,017	11,964,250	12,462,091	15,365,372
Unrestricted	2,467,285	2,764,444	5,632,098	5,882,896	8,099,383	8,647,340
Total net assets	\$ 10,288,313	\$ 9,451,331	\$ 47,590,335	\$ 47,211,374	\$ 57,878,648	\$ 56,662,705

An additional portion of the City's net assets, \$12,462,091 or 22% represents resources that are subject to external or code restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$8,099,383 or 14%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets increased by \$1,215,943 during the current fiscal year.

Governmental activities. Governmental activities increased the City's net assets by \$836,982 to Governmental Key elements of this are as follows:

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

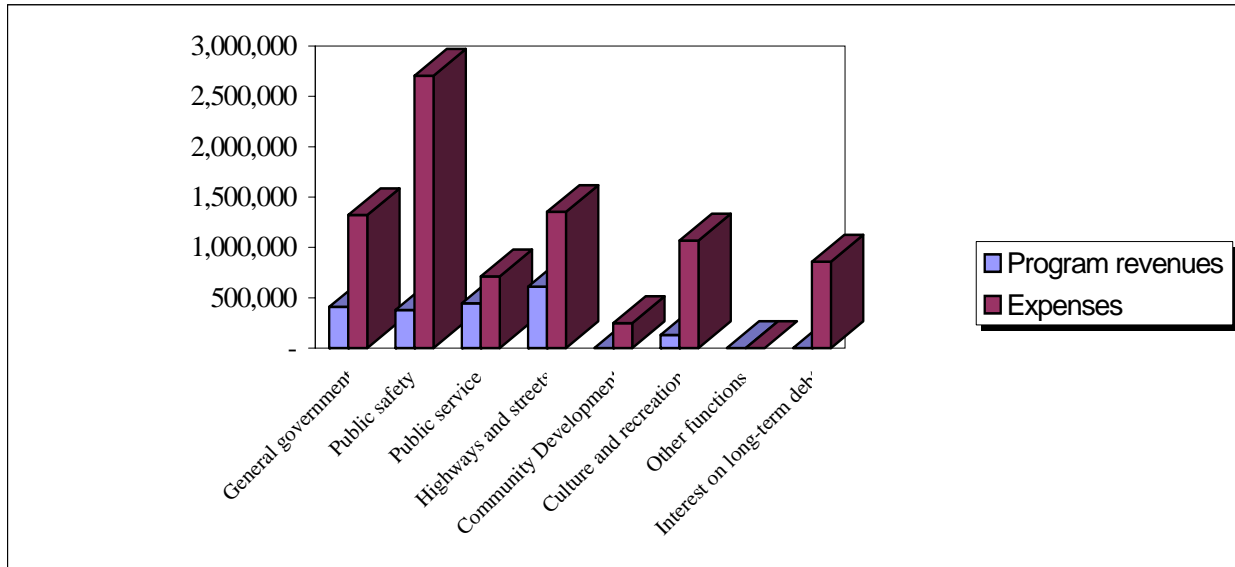
City of New Baltimore's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenues:						
Charges for services	\$ 1,254,720	\$ 1,265,256	\$ 2,776,438	\$ 3,150,369	\$ 4,031,158	\$ 4,415,625
Operating grants and contributions	719,231	712,109	-	-	719,231	712,109
Capital grants and contributions	-	407,860	35,642	-	35,642	407,860
General revenues:						
Property taxes	5,836,384	4,550,353	-	-	5,836,384	4,550,353
State shared revenue	927,006	640,300	-	-	927,006	640,300
Other	365,029	249,170	662,339	230,282	1,027,368	479,452
Total revenues	<u>9,102,370</u>	<u>7,825,048</u>	<u>3,474,419</u>	<u>3,380,651</u>	<u>12,576,789</u>	<u>11,205,699</u>
Expenses:						
General government	1,320,542	1,247,455	-	-	1,320,542	1,247,455
Public safety	2,702,954	2,624,099	-	-	2,702,954	2,624,099
Public works	712,985	652,401	-	-	712,985	652,401
Highways and streets	1,352,259	1,370,092	-	-	1,352,259	1,370,092
Community development	248,357	220,245	-	-	248,357	220,245
Culture and recreation	1,068,696	932,261	-	-	1,068,696	932,261
Interest on long-term deb	858,248	606,237	-	-	858,248	606,237
Water	-	-	1,372,361	1,389,153	1,372,361	1,389,153
Sewer	-	-	1,510,300	1,248,757	1,510,300	1,248,757
Storm water	-	-	214,144	215,766	214,144	215,766
Total expenses	<u>8,264,041</u>	<u>7,652,790</u>	<u>3,096,805</u>	<u>2,853,676</u>	<u>11,360,846</u>	<u>10,506,466</u>
Increase in net assets before transfers	838,329	172,258	377,614	526,975	1,215,943	699,233
Transfers	(1,347)	(13,752,756)	1,347	13,752,756	-	-
Increase in net assets	836,982	(13,580,498)	378,961	14,279,731	1,215,943	699,233
Net assets-beginning	9,451,331	23,031,829	47,211,374	32,931,643	56,662,705	55,963,472
Net assets-ending	<u>\$ 10,288,313</u>	<u>\$ 9,451,331</u>	<u>\$ 47,590,335</u>	<u>\$ 47,211,374</u>	<u>\$ 57,878,648</u>	<u>\$ 56,662,705</u>

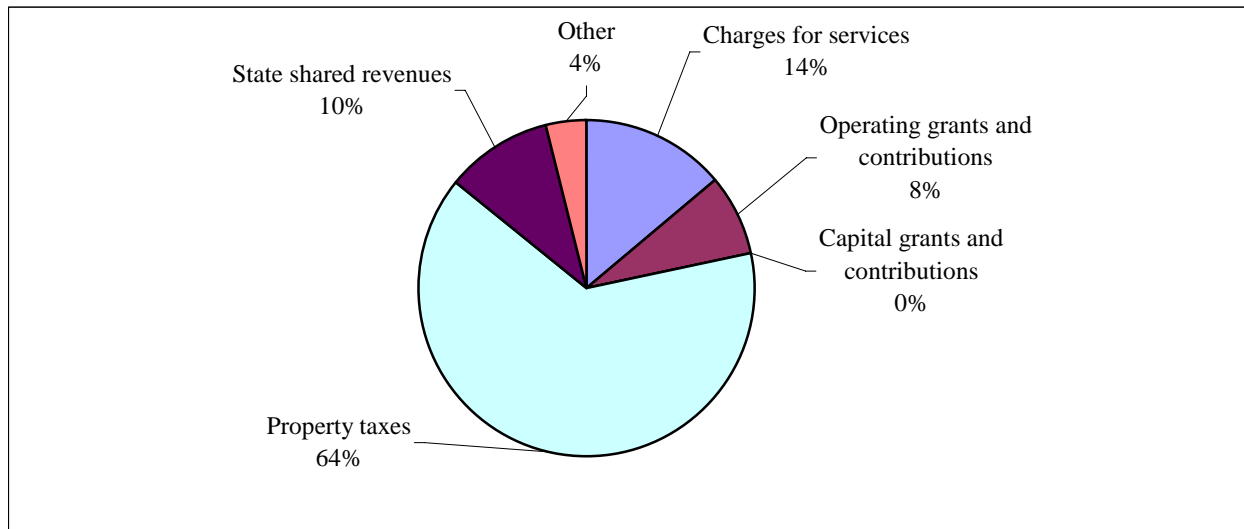
CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities

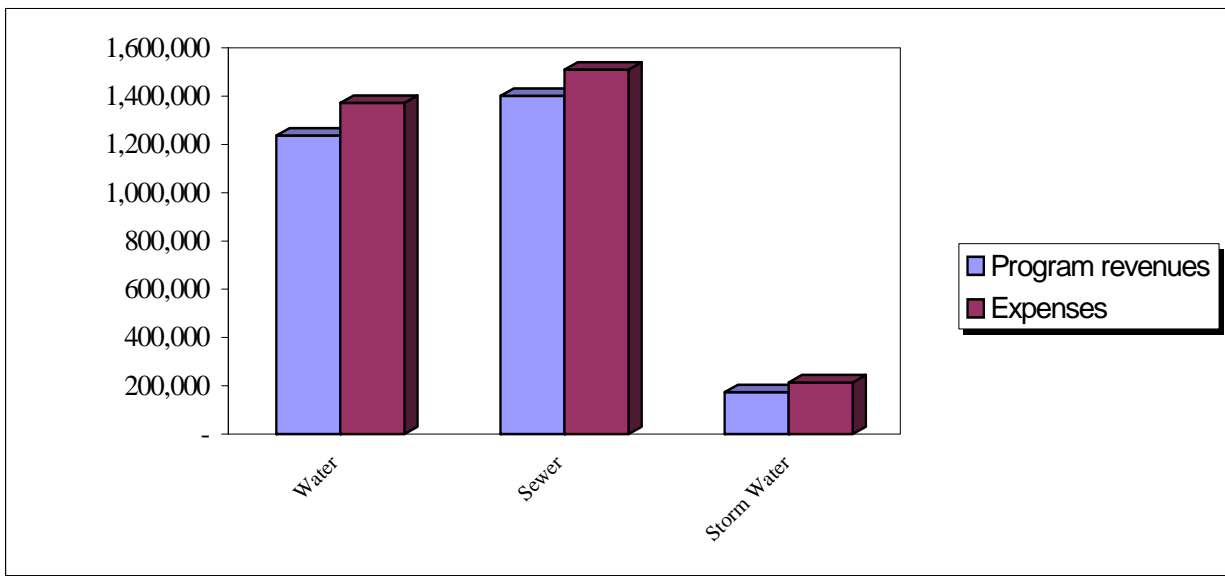


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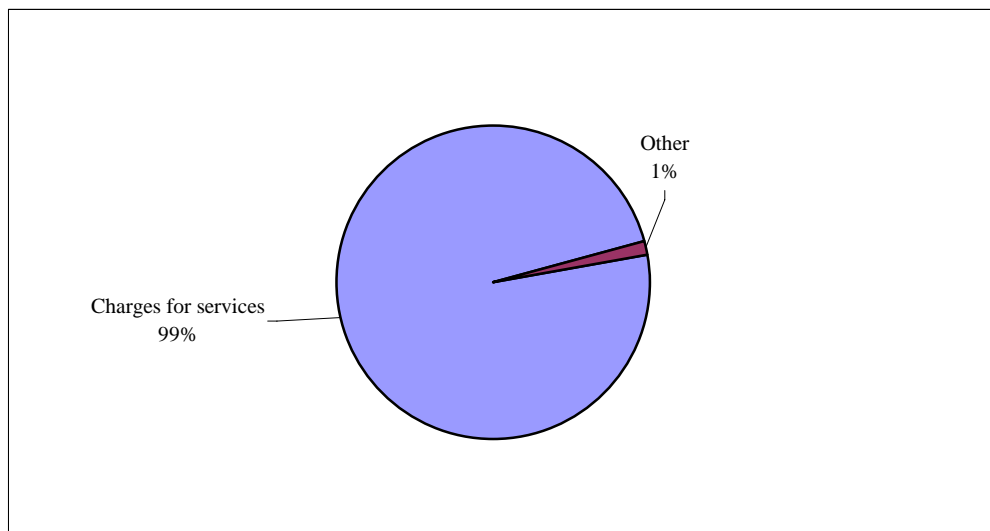
Management's Discussion and Analysis

Business-type Activities. Business-type activities increased the City's net assets by \$378,961 .

Expenses and Program Revenues - Business-Type Activities



Revenues by Sources – Business-Type Activities



CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,220,056 for an increase of \$682,623 in comparison with the prior year. Approximately 88% of this total amount, or \$5,459,583 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

Major Governmental Funds:

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$1,585,729 , while total fund balance was \$1,636,982 at year end. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 31.3% of total general fund expenditures, while total fund balance represents 32.4% of the same amount.

The fund balance of the City's general fund increased by \$57,917 during the current fiscal year. This is attributable primarily to increases in property tax revenues, charges for services and increased state revenue sharing due to the 2004 special census population increase. Strict control over expenditures was also a contributing factor.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Sewer Fund at the end of the year amounted to \$4,342,920 while unrestricted net assets of the Storm Water Fund amounted to \$822,443 at year end.. The Water Fund increased net assets by \$350,900 and the Sewer Fund increased net assets by \$49,571 during the current fiscal year. The Storm Water Fund decreased in net assets in the amount of \$8,461 during the current fiscal year . Major factors concerning the activities of these funds have already been addressed in the discussion of the City's business-type activities above.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were substantial. The increase in budgeted revenues of \$595,410 and increase in budgeted expenditures of \$265,822 can be briefly summarized as follows:

- The revenue budget for property tax related items increased \$110,919. Additional grants received in particular state revenue sharing, added \$360,556 to total revenues. Increases in investment earnings and charges for services accounted for most of the other increases.
- The Police and Fire Department budgets were increased a total of \$193,675 due to added personnel and supply costs.
- The attorney's budget was decreased \$30,000 due to decreased litigation.
- Street Lighting was increased by \$9,000.
- Refuse Collection was increased by \$19,321.
- Other increases to the Council, Mayor, Elections, Clerk, Planning and Engineering budgets were offset by decreases in the Building and Grounds budget.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$56,725,174 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, and roads, highways, and other infrastructure. The total increase in the City's investment in capital assets for the current fiscal year was \$4,198,181 or 8% which represents decreases in governmental activities of \$516,812 or .05%, and an increase in business-type activities of \$4,714,993 or 16%.

Major capital asset events during the current fiscal year included the following:

- The Water Plant construction project.
- Vehicle and equipment purchases.
- Contributed streets and the associated land.
- Other land and building additions.

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Management's Discussion and Analysis

City of New Baltimore's Capital Assets (net of depreciation)

	Governmental Activities	Business-Type Activities	Total
Land	\$ 4,687,952	\$ 1,039,105	\$ 5,727,057
Construction in process	206,968	7,553,595	7,760,563
Land improvements	404,811	98,500	503,311
Buildings and improvements	546,887	6,658,741	7,205,628
Library books	620,480	-	620,480
Vehicles and equipment	128,683	405,452	534,135
Infrastructure and systems	16,050,173	18,323,827	34,374,000
Total	<u>\$ 22,645,954</u>	<u>\$ 34,079,220</u>	<u>\$ 56,725,174</u>

Additional information regarding the City's capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$19,408,000 . Debt consists of general obligation bonds which are backed by the full faith and credit of the City and special assessment bonds in which the City is liable in the event of default by the property owners subject to the assessment. Outstanding obligations as of the end of the fiscal year are as follow:

City of New Baltimore's Outstanding Debt

	Governmental Activities	Business-Type Activities	Total
General obligation bonds	\$ 19,150,000	\$ -	\$ 19,150,000
Special assessment bonds	258,000	-	258,000
	<u>\$ 19,408,000</u>	<u>\$ -</u>	<u>\$ 19,408,000</u>

The City's total debt decreased by \$469,000 during the current fiscal year. The total decrease in debt was attributable to the City's governmental activities.

Additional information concerning the City's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- Increase in property tax revenue due to community growth and property appreciation.
- An increase in state shared revenues due to the special census of 2004.
- Contractual wage increases, an increase in pension contributions and rising health care costs.

CITY OF NEW BALTIMORE, MICHIGAN

Management's Discussion and Analysis

Requests for Information

This financial report is designed to provide a general overview of the City of New Baltimore's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, 36535 Green Street, New Baltimore, Michigan 48047.

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BASIC FINANCIAL STATEMENTS

CITY OF NEW BALTIMORE, MICHIGAN

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Units</u>
Assets				
Cash and cash equivalents	\$ 4,907,698	\$ 2,008,891	\$ 6,916,589	\$ 496,701
Investments	3,079,407	3,280,719	6,360,126	-
Receivables (net)	561,977	614,821	1,176,798	2,508
Internal balances	(757,386)	757,386	-	-
Inventory	20,171	70,291	90,462	-
Prepaid items and other assets	423,377	127,134	550,511	-
Restricted assets:				
Cash and cash equivalents	-	3,096,579	3,096,579	-
Investments	-	4,890,772	4,890,772	-
Capital assets:				
Assets not being depreciated	4,894,920	8,592,700	13,487,620	-
Assets being depreciated, net	17,751,034	25,486,520	43,237,554	303,828
Total assets	<u>30,881,198</u>	<u>48,925,813</u>	<u>79,807,011</u>	<u>803,037</u>
Liabilities				
Accounts payable	297,201	1,248,059	1,545,260	-
Accrued liabilities	550,479	32,811	583,290	3,284
Unearned revenue	149,917	-	149,917	-
Noncurrent liabilities:				
Due within one year	658,000	-	658,000	19,396
Due in more than one year	18,937,288	54,608	18,991,896	81,977
Total liabilities	<u>20,592,885</u>	<u>1,335,478</u>	<u>21,928,363</u>	<u>104,657</u>
Net assets				
Invested in capital assets, net of related debt	3,237,954	34,079,220	37,317,174	202,455
Restricted for:				
Debt service	502,876	-	502,876	-
Street reconstruction	277,724	-	277,724	-
Highways and streets	716,521	-	716,521	-
Public safety	283,091	-	283,091	-
Recreation and culture	603,793	-	603,793	-
Perpetual care:				
Unexpendable	200,000	-	200,000	-
Other purposes	1,999,069	7,879,017	9,878,086	-
Unrestricted	2,467,285	5,632,098	8,099,383	495,925
Total net assets	<u>\$ 10,288,313</u>	<u>\$ 47,590,335</u>	<u>\$ 57,878,648</u>	<u>\$ 698,380</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 1,320,542	\$ 399,353	\$ 9,030	\$ -	\$ (912,159)
Public safety	2,702,954	283,366	96,045	-	(2,323,543)
Public works	712,985	446,530	-	-	(266,455)
Highways and streets	1,352,259	26,720	583,306	-	(742,233)
Community and economic development	248,357	-	-	-	(248,357)
Recreation and culture	1,068,696	98,751	30,850	-	(939,095)
Interest on long-term debt	858,248	-	-	-	(858,248)
Total governmental activities	8,264,041	1,254,720	719,231	-	(6,290,090)
Business-type activities					
Water	1,372,361	1,201,685	-	35,642	(135,034)
Sewer	1,510,300	1,401,647	-	-	(108,653)
Storm Water	214,144	173,106	-	-	(41,038)
Total business-type activities	3,096,805	2,776,438	-	35,642	(284,725)
Total primary government	\$11,360,846	\$4,031,158	\$ 719,231	\$ 35,642	\$ (6,574,815)
Component units					
Downtown development authority	\$ 23,827	\$ -	\$ -	\$ -	\$ (23,827)
Economic development corporation	-	-	-	-	-
Local development financing authority	16,624	-	-	-	(16,624)
Total component units	\$ 40,451	\$ -	\$ -	\$ -	\$ (40,451)

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
STATEMENT OF ACTIVITIES (CONCLUDED)
Year Ended June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (6,290,090)	\$ (284,725)	\$ (6,574,815)	\$ (40,451)
General revenues:				
Property taxes	4,021,451	-	4,021,451	107,824
Property taxes for other purposes	1,814,933	-	1,814,933	-
State shared revenue	927,006	-	927,006	-
Unrestricted investment earnings	361,539	662,339	1,023,878	14,068
Insurance recoveries	3,490	-	3,490	-
Transfers - internal activities	(1,347)	1,347	-	-
Total general revenues and transfers	7,127,072	663,686	7,790,758	121,892
Change in net assets	836,982	378,961	1,215,943	81,441
Net assets, beginning of year, as restated	9,451,331	47,211,374	56,662,705	616,939
Net assets, end of year	\$ 10,288,313	\$ 47,590,335	\$ 57,878,648	\$ 698,380

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2006

	General	Street Reconstruction	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$1,601,513	\$ 387,465	\$ 2,721,493	\$ 4,710,471
Investments	680,300	55,807	1,546,530	2,282,637
Receivables:				
Accounts receivable (net)	102,869	-	-	102,869
Taxes-delinquent	88,486	-	31,768	120,254
Interest and dividends	9,798	714	27,108	37,620
Due from other funds	13,832	-	114,665	128,497
Due from other governments	203,326	-	95,567	298,893
Prepaid expenditures	51,253	-	6,344	57,597
Total assets	<u>\$2,751,377</u>	<u>\$ 443,986</u>	<u>\$ 4,543,475</u>	<u>\$ 7,738,838</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 98,583	\$ 166,262	\$ 24,915	\$ 289,760
Due to other funds	139,993	-	171,314	311,307
Due to other governments	2,079	-	206	2,285
Accrued liabilities	308,228	-	9,922	318,150
Deferred revenue	238,404	-	31,768	270,172
Advances from other funds	327,108	-	-	327,108
Total liabilities	<u>1,114,395</u>	<u>166,262</u>	<u>238,125</u>	<u>1,518,782</u>
Fund balances				
Reserved for:				
Debt service	-	-	502,876	502,876
Prepaid expenditures	51,253	-	6,344	57,597
Perpetual care	-	-	200,000	200,000
Unreserved, undesignated for:				
General fund	1,585,729	-	-	1,585,729
Special revenue funds	-	277,724	3,596,130	3,873,854
Total fund balances	<u>1,636,982</u>	<u>277,724</u>	<u>4,305,350</u>	<u>6,220,056</u>
Total liabilities and fund balances	<u>\$2,751,377</u>	<u>\$ 443,986</u>	<u>\$ 4,543,475</u>	<u>\$ 7,738,838</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
Year Ended June 30, 2006

Fund balances - total governmental funds	\$ 6,220,056
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	31,037,044
Deduct: accumulated depreciation	(9,075,205)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	120,255
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Internal service funds are used by management to charge the costs of certain equipment usage, public service department and retiree health care costs to individual funds. A portion of the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service funds	1,399,112
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Add: deferred bond charges	337,126
Deduct: accrued interest	(205,347)
Deduct: bonds payable	(19,408,000)
Deduct: compensated absences	(136,728)

Net assets of governmental activities	<u>\$ 10,288,313</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenditures and Changes in Fund Balances
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	<u>General</u>	<u>Street Reconstruction</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Property taxes	\$ 3,966,164	\$ -	\$ 1,814,933	\$ 5,781,097
Special assessments	-	-	18,516	18,516
Licenses and permits	165,758	-	183,918	349,676
Intergovernmental	1,026,931	-	587,873	1,614,804
Charges for services	793,795	-	20,430	814,225
Fines and forfeitures	43,476	-	41,043	84,519
Contributions	-	-	24,922	24,922
Investment earnings	138,588	14,823	149,748	303,159
Other	24,579	-	9,257	33,836
Total revenues	<u>6,159,291</u>	<u>14,823</u>	<u>2,850,640</u>	<u>9,024,754</u>
Expenditures				
Current:				
General government	1,364,443	-	78,927	1,443,370
Public safety	2,395,089	-	245,764	2,640,853
Public works	652,614	-	-	652,614
Highways and streets	-	76,950	331,549	408,499
Recreation and culture	545,476	-	462,427	1,007,903
Other functions	101,154	-	-	101,154
Debt service				
Principal	-	-	469,000	469,000
Interest and fees	-	-	1,002,579	1,002,579
Capital Outlay	-	217,395	274,407	491,802
Total expenditures	<u>5,058,776</u>	<u>294,345</u>	<u>2,864,653</u>	<u>8,217,774</u>
Revenues over (under) expenditures	<u>1,100,515</u>	<u>(279,522)</u>	<u>(14,013)</u>	<u>806,980</u>
Other financing sources (uses)				
Transfers in	-	-	1,031,945	1,031,945
Transfers out	(1,046,088)	-	(113,704)	(1,159,792)
Insurance proceeds	3,490	-	-	3,490
Total other financing sources (uses)	<u>(1,042,598)</u>	<u>-</u>	<u>918,241</u>	<u>(124,357)</u>
Net change in fund balances	57,917	(279,522)	904,228	682,623
Fund balances, beginning of year	<u>1,579,065</u>	<u>557,246</u>	<u>3,401,122</u>	<u>5,537,433</u>
Fund balances, end of year	<u>\$ 1,636,982</u>	<u>\$ 277,724</u>	<u>\$ 4,305,350</u>	<u>\$ 6,220,056</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 682,623
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	523,197
Deduct: depreciation expense	(1,099,792)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the

Add: net difference in deferred revenue	15,746
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	469,000
Deduct: amortization of deferred bond charges	(17,431)

Internal service funds are used by management to charge the costs of certain equipment, public service department and retiree health care costs to individual funds. The net revenue (expense) attributable to those funds are reported with governmental activities in the statement of activities.

Deduct: net operating loss from governmental activities in the internal service fund	(10,163)
Add: net transfers reported in the internal service funds	126,500
Add: non-operating revenues reported in the internal service funds	58,380

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the

Add: decrease in accrued interest expense	161,766
Deduct: increase in the accrual for compensated absences	(72,844)

Change in net assets of governmental activities	<u>\$ 836,982</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Property taxes	\$ 3,851,180	\$3,962,099	\$ 3,966,164	\$ 4,065
Licenses and permits	163,028	163,881	165,758	1,877
Intergovernmental:				
Federal grants	25,600	92,300	92,301	1
State grants	647,016	940,872	934,630	(6,242)
Charges for services	641,550	696,632	793,795	97,163
Fines and forfeitures	49,250	47,250	43,476	(3,774)
Investment earnings	25,000	95,000	138,588	43,588
Other	6,000	6,000	24,579	18,579
Total revenues	<u>5,408,624</u>	<u>6,004,034</u>	<u>6,159,291</u>	<u>155,257</u>
Expenditures				
General government:				
Council	72,144	74,144	76,656	(2,512)
Mayor	155,985	156,788	151,765	5,023
Elections	82,838	95,059	86,581	8,478
Assessor	109,859	109,859	102,262	7,597
Attorney	200,000	170,000	146,410	23,590
Clerk	476,075	478,565	437,291	41,274
Board of review	1,650	1,650	1,768	(118)
Treasurer	95,549	95,549	88,421	7,128
Building and grounds	163,383	86,083	63,751	22,332
Planning	72,126	112,126	112,156	(30)
Engineering	75,607	97,307	97,382	(75)
Total general government	<u>1,505,216</u>	<u>1,477,130</u>	<u>1,364,443</u>	<u>112,687</u>
Public safety:				
Police	1,909,727	2,006,892	1,966,427	40,465
Fire	359,518	456,028	419,012	37,016
Crossing guards	13,946	13,946	9,650	4,296
Total public safety	<u>2,283,191</u>	<u>2,476,866</u>	<u>2,395,089</u>	<u>81,777</u>

Continued.....

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Concluded.....				
Public works:				
Street Lighting	\$ 153,000	\$ 162,000	\$ 161,954	\$ 46
Sidewalk and trail construction	46,875	22,875	9,077	13,798
Rubbish and garbage collection	429,271	448,592	446,536	2,056
Community tree program	38,875	38,875	35,047	3,828
Total public works	<u>668,021</u>	<u>672,342</u>	<u>652,614</u>	<u>19,728</u>
Recreation and culture:				
Parks and recreation	<u>548,120</u>	<u>571,740</u>	<u>545,476</u>	<u>26,264</u>
Other functions:				
Community promotion	101,361	103,761	101,154	2,607
Other expenditures	<u>34,715</u>	<u>104,607</u>	<u>-</u>	<u>104,607</u>
Total other expenditures	<u>136,076</u>	<u>208,368</u>	<u>101,154</u>	<u>107,214</u>
Total expenditures	<u>5,140,624</u>	<u>5,406,446</u>	<u>5,058,776</u>	<u>347,670</u>
Revenues over (under) expenditures	<u>268,000</u>	<u>597,588</u>	<u>1,100,515</u>	<u>502,927</u>
Other financing sources (uses)				
Transfers out	(266,500)	(1,046,088)	(1,046,088)	-
Insurance proceeds	<u>-</u>	<u>-</u>	<u>3,490</u>	<u>3,490</u>
Total other financing (uses)	<u>(266,500)</u>	<u>(1,046,088)</u>	<u>(1,042,598)</u>	<u>3,490</u>
Net change in fund balances	1,500	(448,500)	57,917	506,417
Fund balance, beginning of year, as restated	<u>1,579,065</u>	<u>1,579,065</u>	<u>1,579,065</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,580,565</u>	<u>\$ 1,130,565</u>	<u>\$ 1,636,982</u>	<u>\$ 506,417</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Street Reconstruction
Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Investment earnings	\$ 2,500	\$ 2,500	\$ 14,823	\$ 12,323
Expenditures				
Operating expenditures	100,000	100,000	76,950	23,050
Construction	751,000	751,000	217,395	533,605
Total expenditures	851,000	851,000	294,345	556,655
Revenues over (under) expenditures	(848,500)	(848,500)	(279,522)	568,978
Other financing sources (uses)				
Transfers in	125,000	125,000	-	(125,000)
Net change in fund balances	(723,500)	(723,500)	(279,522)	443,978
Fund balance, beginning of year	557,246	557,246	557,246	-
Fund balance (deficit), end of year	<u>\$ (166,254)</u>	<u>\$ (166,254)</u>	<u>\$ 277,724</u>	<u>\$ 443,978</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Net Assets PROPRIETARY FUNDS Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds		Other Fund		Internal Service
	Water	Sewer	Storm Water	Total	
Assets					
Current assets:					
Cash and cash equivalents	\$ -	\$ 1,745,383	\$ 263,508	\$ 2,008,891	\$ 197,227
Investments	518,347	2,228,026	534,346	3,280,719	796,770
Accounts receivable	202,889	292,718	-	495,607	-
Interest receivable	50,671	26,724	3,004	80,399	2,013
Due from other funds	17,283	13,950	-	31,233	233,335
Due from other governments	-	-	38,815	38,815	328
Inventories	70,291	-	-	70,291	20,171
Advances to other funds	19,242	19,242	-	38,484	-
Prepaid expenses	120,145	6,973	16	127,134	28,654
Total current assets	<u>998,868</u>	<u>4,333,016</u>	<u>839,689</u>	<u>6,171,573</u>	<u>1,278,498</u>
Noncurrent assets:					
Restricted cash and cash equivalents	3,096,579	-	-	3,096,579	-
Restricted investments	4,890,772	-	-	4,890,772	-
Advances to other funds	144,312	144,312	-	288,624	-
Capital assets, net of accumulated depreciation	<u>17,884,708</u>	<u>13,720,590</u>	<u>2,473,922</u>	<u>34,079,220</u>	<u>684,115</u>
Total noncurrent assets	<u>26,016,371</u>	<u>13,864,902</u>	<u>2,473,922</u>	<u>42,355,195</u>	<u>684,115</u>
Total assets	<u>27,015,239</u>	<u>18,197,918</u>	<u>3,313,611</u>	<u>48,526,768</u>	<u>1,962,613</u>
Liabilities					
Current liabilities:					
Accounts payable	1,176,867	69,340	1,852	1,248,059	5,156
Due to other funds	30,350	21,946	15,394	67,690	14,068
Accrued liabilities	<u>15,170</u>	<u>17,641</u>	<u>-</u>	<u>32,811</u>	<u>26,982</u>
Total current liabilities	<u>1,222,387</u>	<u>108,927</u>	<u>17,246</u>	<u>1,348,560</u>	<u>46,206</u>
Long-term liabilities:					
Accrued compensated absences	<u>29,127</u>	<u>25,481</u>	<u>-</u>	<u>54,608</u>	<u>50,560</u>
Total liabilities	<u>1,251,514</u>	<u>134,408</u>	<u>17,246</u>	<u>1,403,168</u>	<u>96,766</u>
Net Assets					
Investment in capital assets	17,884,708	13,720,590	2,473,922	34,079,220	684,115
Restricted for capital projects	<u>7,879,017</u>	<u>-</u>	<u>-</u>	<u>7,879,017</u>	<u>-</u>
Unrestricted	<u>-</u>	<u>4,342,920</u>	<u>822,443</u>	<u>5,165,363</u>	<u>1,181,732</u>
Total net assets	<u>\$25,763,725</u>	<u>\$18,063,510</u>	<u>\$ 3,296,365</u>	<u>47,123,600</u>	<u>\$ 1,865,847</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				<u>466,735</u>	
Net assets of business type activities				<u>\$ 47,590,335</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Revenues, Expenses and Changes in Fund Net Assets PROPRIETARY FUNDS Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds		Other Fund		
	Water	Sewer	Storm Water	Total	Internal Service Funds
Operating revenues					
Charges for services	\$ 1,201,080	\$ 1,401,617	\$ 158,064	\$ 2,760,761	\$ 1,074,003
Contributions	-	-	-	-	152,192
Miscellaneous income	605	30	15,042	15,677	-
Total operating revenues	1,201,685	1,401,647	173,106	2,776,438	1,226,195
Operating expenses					
General and administrative	177,632	212,478	58,563	448,673	-
Plant operation	560,099	499,583	-	1,059,682	-
System network	346,455	344,158	78,529	769,142	-
Services	-	-	-	-	1,162,103
Depreciation	279,538	451,023	75,698	806,259	87,304
Total operating expenses	1,363,724	1,507,242	212,790	3,083,756	1,249,407
Operating income (loss)	(162,039)	(105,595)	(39,684)	(307,318)	(23,212)
Non-operating revenues (expenses)					
Interest income	475,950	155,166	31,223	662,339	43,295
Appreciation in fair value of investments	-	-	-	-	15,085
Total non-operating revenues (expenses)	475,950	155,166	31,223	662,339	58,380
Income before contributions and transfers	313,911	49,571	(8,461)	355,021	35,168
Intergovernmental capital contributions:					
Federal grants	35,642	-	-	35,642	-
Transfers in	1,347	-	-	1,347	126,500
Change in net assets	350,900	49,571	(8,461)	392,010	161,668
Net assets, beginning of year, as restated	25,412,825	18,013,939	3,304,826		1,704,179
Net assets, end of year	\$ 25,763,725	\$ 18,063,510	\$ 3,296,365		\$ 1,865,847
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				(13,049)	
Change in net assets of business-type activities				\$ 378,961	

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Cash Flows

PROPRIETARY FUNDS

Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds		Storm Water	Total	Internal Service
	Water	Sewer			
Cash flows from operating activities					
Cash received from customers and others	\$ 1,209,854	\$ 1,388,780	\$ 173,106	\$ 2,771,740	\$ -
Cash received from interfund services	4,123	16,574	-	20,697	1,132,453
Cash payments to employees	(427,377)	(288,187)	-	(715,564)	(216,800)
Cash payments to suppliers for goods and services	242,280	(737,287)	(135,408)	(630,415)	(951,176)
Cash payments for interfund services	-	-	(126,275)	(126,275)	-
Net cash provided (used) by operating activities	<u>1,028,880</u>	<u>379,880</u>	<u>(88,577)</u>	<u>1,320,183</u>	<u>(35,523)</u>
Cash flows from non-capital financing activities					
Transfers from other funds	-	-	-	-	126,500
Cash flows from capital and related financing activities					
Purchase of capital assets	(5,482,192)	(39,060)	-	(5,521,252)	(147,087)
Transfers from other funds	1,347	-	-	1,347	-
Capital contribution	35,642	-	-	35,642	-
Net cash (used) by capital and related financing activities	<u>(5,445,203)</u>	<u>(39,060)</u>	<u>-</u>	<u>(5,484,263)</u>	<u>(147,087)</u>
Cash flows from investing activities					
Purchases of investments	(5,009,119)	-	-	(5,009,119)	(316,472)
Proceeds from sale of investments	-	(1,521,175)	(380,303)	(1,901,478)	-
Proceeds from interfund loan payments	19,241	19,241	-	38,482	-
Investment income	496,586	135,767	29,919	662,272	57,334
Net cash provided (used) by investing activities	<u>(4,493,292)</u>	<u>(1,366,167)</u>	<u>(350,384)</u>	<u>(6,209,843)</u>	<u>(259,138)</u>
Net increase (decrease) in cash and cash equivalents	<u>(8,909,615)</u>	<u>(1,025,347)</u>	<u>(438,961)</u>	<u>(10,373,923)</u>	<u>(315,248)</u>
Cash and cash equivalents, beginning of year	<u>12,006,194</u>	<u>2,770,730</u>	<u>702,469</u>	<u>15,479,393</u>	<u>512,475</u>
Cash and cash equivalents, end of year	<u>\$ 3,096,579</u>	<u>\$ 1,745,383</u>	<u>\$ 263,508</u>	<u>\$ 5,105,470</u>	<u>\$ 197,227</u>

Continued...

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Cash Flows (Concluded)

PROPRIETARY FUNDS

Year Ended June 30, 2006

Concluded	Business-type Activities - Enterprise Funds				Governmental Activities
	Major Funds		Other Fund	Total	Internal Service
	Water	Sewer	Storm Water		
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ (162,039)	\$ (105,595)	\$ (39,684)	\$ (307,318)	\$ (23,212)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	279,538	451,023	75,698	806,259	87,304
Changes in assets and liabilities:					
Accounts receivable - customers	8,169	(12,867)	-	(4,698)	9
Due from other funds	(5,921)	7,464	-	1,543	(105,866)
Inventories	12,129	-	-	12,129	(12,446)
Prepaid items	24,417	1,080	(16)	25,481	(2,690)
Accounts payable	856,673	24,364	1,700	882,737	(2,420)
Due to other funds	10,044	9,110	(126,275)	(107,121)	12,115
Accrued liabilities	2,320	1,178	-	3,498	5,889
Accrued compensated absences	3,550	4,123	-	7,673	5,794
Net cash provided (used) by operating activities	<u>\$ 1,028,880</u>	<u>\$ 379,880</u>	<u>\$ (88,577)</u>	<u>\$ 1,320,183</u>	<u>\$ (35,523)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Fiduciary Net Assets

FUDICIARY FUNDS

June 30, 2006

	<u>Pension Trust</u>	<u>Agency</u>
ASSETS		
Cash and cash equivalents	\$ 53,609	\$ 624
Investments		
Stock mutual funds	<u>6,717,991</u>	<u>-</u>
Total assets	<u>6,771,600</u>	<u>\$ 624</u>
LIABILITIES		
Liabilities		
Accounts payable	19,200	-
Other liabilities	<u>-</u>	<u>624</u>
Total liabilities	<u>19,200</u>	<u>\$ 624</u>
NET ASSETS		
Held in trust for pension benefits	<u>\$ 6,752,400</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Changes in Fiduciary Net Assets

Year Ended June 30, 2006

	<u>Pension Trust</u>
Additions	
Contributions	
Employer contributions	\$ 364,977
Employee contributions	<u>153,650</u>
Total contributions	<u>518,627</u>
Investment income	
Net appreciation in fair value	<u>466,932</u>
Total additions	<u>985,559</u>
Deductions	
Benefits	223,388
Administrative expenses	<u>22,350</u>
Total deductions	<u>245,738</u>
Net increase in plan net assets	739,821
Net assets held in trust for pension benefits - beginning of year	<u>6,012,579</u>
Net assets held in trust for pension benefits - end of year	<u>\$ 6,752,400</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

Combining Statement of Net Assets - Component Units

June 30, 2006

	<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Local Development Financing Authority</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 89,032	\$ 15,355	\$ 392,314	\$ 496,701
Receivables, net	-	-	2,508	2,508
Capital assets:				
Depreciable, net	<u>303,828</u>	<u>-</u>	<u>-</u>	<u>303,828</u>
Total assets	<u>392,860</u>	<u>15,355</u>	<u>394,822</u>	<u>803,037</u>
Liabilities				
Accrued liabilities	3,284	-	-	3,284
Long-term liabilities:				
Due within one year	19,396	-	-	19,396
Due in more than one year	<u>81,977</u>	<u>-</u>	<u>-</u>	<u>81,977</u>
Total liabilities	<u>104,657</u>	<u>-</u>	<u>-</u>	<u>104,657</u>
Net assets				
Invested in capital assets, net				
of related debt	202,455	-	-	202,455
Unrestricted	<u>85,748</u>	<u>15,355</u>	<u>394,822</u>	<u>495,925</u>
Total net assets	<u>\$ 288,203</u>	<u>\$ 15,355</u>	<u>\$ 394,822</u>	<u>\$ 698,380</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN
Combining Statement of Activities - Component Units
Year Ended June 30, 2006

	<u>Downtown Development Authority</u>	<u>Economic Development Corporation</u>	<u>Local Development Financing Authority</u>	<u>Total</u>
Expenses				
Community and economic development	\$ 23,827	\$ -	\$ 16,624	\$ 40,451
General revenues				
Property taxes	55,862	-	51,962	107,824
Unrestricted investment earnings	296	79	13,693	14,068
Total general revenues	56,158	79	65,655	121,892
Change in net assets	32,331	79	49,031	81,441
Net assets, beginning of year	255,872	15,276	345,791	616,939
Net assets, end of year	<u>\$ 288,203</u>	<u>\$ 15,355</u>	<u>\$ 394,822</u>	<u>\$ 698,380</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1-A. Reporting Entity

The accompanying financial statements present the activities of the City of New Baltimore, Michigan (the “City” or “government”) and its three component units, which are legally separate organizations for which the City is financially accountable. These discretely presented component units are presented in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City. The component units all have June 30th year-ends.

Component Unit	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation, and promotes economic growth within the downtown district.	City Mayor and Council approve DDA Board.	Not prepared
Economic Development Corporation (EDC); provides means and methods for the encouragement of industrial and commercial enterprises in relocating, purchasing, constructing or improving sites within the City.	City Mayor and Council approve EDC board and annual budget.	Not prepared
Local Development Finance Authority (LDFA); prevents conditions of unemployment and promotes economic growth by providing those public improvements necessary to promote and sustain industrial development within the established district.	City Mayor and Council approve LDFA board and annual budget.	Not prepared

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1-B. Basis of Presentation

Government-wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street reconstruction fund. This fund accounts for the various street reconstruction projects, except those required to be accounted for in the Major or Local Streets funds.

The City reports the following major enterprise funds:

Water fund. This fund accounts for the activities of the City's water treatment and distribution systems.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Sewer fund. This fund accounts for the activities of the City's sewage disposal and treatment systems.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on the City's long-term obligation bonds of governmental funds.

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. These include vehicles and equipment maintenance, the department of public services and the retiree health care funds.

Pension trust fund. This fund accounts for the activities of the City of New Baltimore Employees Retirement System, which accumulates resources for retirement benefit payments to qualified employees.

Agency fund. This fund account for assets held for other governments in an agency capacity (tax collections).

1-C. Measurement Focus / Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end or within one year for reimbursement-based grants. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1-D. Assets, Liabilities and Equity

Deposits and Investments

The City maintains separate cash accounts for each of the City's funds and the cash accounts are displayed on the statement of net assets/balance sheet as "cash and cash equivalents". The cash resources of the Employees Retirement System are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as due to/from other funds. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as internal balances.

Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Generally, inventories of governmental funds are recorded as expenditures when purchased.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual or predefined group cost of more than \$35,000 for infrastructure assets and \$5,000 for all other capital assets with an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20-50
Buildings and building improvements	20-50
Public domain infrastructure	20-50
Water and wastewater system infrastructure	50
Vehicles and equipment	5-25
Library books	5

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick and leave time benefits, subject to certain limitations. All sick and leave pay is accrued at 100% in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2-A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the activity level for the general fund and the special revenue funds.

The City Council requires management to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. Management is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuation.

2-B. Excess of Expenditures over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2006, the City incurred expenditures in excess of the amounts appropriated as follows:

GENERAL FUND	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General government			
Council	\$ 74,144	\$ 76,656	\$ (2,512)
Board of review	1,650	1,768	(118)
Planning	112,126	112,156	(30)
Engineering	97,307	97,382	(75)

NOTE 3 – DETAILED NOTES ON ALL FUNDS

3-A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2006:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
Statement of Net Assets			
Cash and cash equivalents	\$ 6,916,589	\$496,701	\$ 7,413,290
Investments	6,360,126	-	6,360,126
Restricted cash and cash equivalents	3,096,579	-	3,096,579
Restricted investments	4,890,772	-	4,890,772
Statement of Fiduciary Net Assets			
Cash and cash equivalents	54,233	-	54,233
Investments	<u>6,717,991</u>	<u>-</u>	<u>6,717,991</u>
Total	<u>\$ 28,036,290</u>	<u>\$496,701</u>	<u>\$ 28,532,991</u>

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Deposits and Investments

Bank deposits (checking accounts, savings accounts and CDs)	\$ 19,759,915
Investments in mutual funds and similar vehicles	8,758,317
Cash held by fiscal agent	<u>198,759</u>

Total	<u>\$ 28,532,991</u>
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Statutory Authority

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Deposits and investments

The City chooses to disclose its investments by specifically identifying each. As of June 30, 2006 the City had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Stock mutual funds	N/A	\$ 6,915,068	Unrated
MBIA Michigan CLASS pool	N/A	<u>1,843,249</u>	AAA/V1+
		<u>\$ 8,758,317</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific investment types as identified above. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end \$19,006,894 of the City's bank balance of \$20,506,894 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. There is no custodial credit risk on the stock mutual fund investments, as these investments are uncategorized as to credit risk. There is no custodial credit risk on the MBIA CLASS pool investments because the City is invested in the pool and not the securities that make up the pool.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. The investment listed above represents the City's total investments. All investments held at year end are reported above.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

3-B. Receivables

Receivables in the governmental activities are 53.2 percent due from other governments, 18.3 percent accounts receivables, 21.4 percent taxes receivable, 7.1 percent accrued interest. Business-type activities receivables are 80.6 percent accounts receivable, 6.3 percent due from other governments and 13.1 percent accrued interest.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Cable franchise fees received	\$ -	\$ 105,621
Inspection and other fees received	-	44,296
Property taxes receivable	<u>120,255</u>	<u>-</u>
Total	<u>\$ 120,255</u>	<u>\$ 149,917</u>

3-C. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

Primary government

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets, not being depreciated -					
Land	\$ 4,493,200	\$ 194,752	\$ -	\$ -	\$ 4,687,952
Construction in progress	<u>93,917</u>	<u>156,282</u>	<u>-</u>	<u>(43,231)</u>	<u>206,968</u>
Total capital assets not being depreciated	<u>4,587,117</u>	<u>351,037</u>	<u>-</u>	<u>(43,231)</u>	<u>4,894,920</u>

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Capital assets being depreciated:					
Land improvements	1,013,776	42,923	-	-	1,056,699
Buildings	1,186,450	-	-	-	1,186,450
Vehicles and equipment	2,381,806	164,245	-	-	2,546,051
Library books	287,281	51,950	(38,760)	-	300,471
Infrastructure	<u>22,424,378</u>	<u>60,132</u>	<u>-</u>	<u>43,231</u>	<u>22,527,741</u>
Total capital assets being depreciated	<u>27,293,691</u>	<u>319,250</u>	<u>(38,760)</u>	<u>43,231</u>	<u>27,617,412</u>
Less accumulated depreciation for:					
Land improvements	(604,652)	(47,236)	-	-	(651,888)
Buildings	(613,271)	(26,292)	-	-	(639,563)
Vehicles and equipment	(1,785,573)	(139,998)	-	-	(1,925,571)
Library books	(159,525)	(51,023)	38,760	-	(171,788)
Infrastructure	<u>(5,555,021)</u>	<u>(922,547)</u>	<u>-</u>	<u>-</u>	<u>(6,477,568)</u>
Total accumulated depreciation	<u>(8,718,042)</u>	<u>(1,187,096)</u>	<u>38,760</u>	<u>-</u>	<u>(9,866,378)</u>
Total capital assets being depreciated, net	<u>18,575,649</u>	<u>(867,846)</u>	<u>-</u>	<u>43,231</u>	<u>17,751,034</u>
Governmental activities capital assets, net	<u>\$23,162,766</u>	<u>\$ (516,812)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$22,645,954</u>

	Beginning Balance	Increase	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated -				
Land	\$ 1,039,105	\$ -	\$ -	\$ 1,039,105
Construction in progress	<u>2,073,154</u>	<u>5,480,441</u>	<u>-</u>	<u>7,553,595</u>
Total capital assets not being depreciated	<u>3,112,259</u>	<u>5,480,441</u>	<u>-</u>	<u>8,592,700</u>
Capital assets, not being depreciated -				
Land improvements	412,000	-	-	412,000
Buildings	12,270,378	9,311	-	12,279,689
Equipment	640,126	-	-	640,126
Infrastructure	<u>25,526,441</u>	<u>31,500</u>	<u>-</u>	<u>25,557,941</u>
Total capital assets being depreciated	<u>38,848,945</u>	<u>40,811</u>	<u>-</u>	<u>38,889,756</u>
Less accumulated depreciation for:				
Land improvements	(304,600)	(8,900)	-	(313,500)
Buildings	(5,374,542)	(246,406)	-	(5,620,948)
Equipment	(194,250)	(40,424)	-	(234,674)
Infrastructure	<u>(6,723,585)</u>	<u>(510,529)</u>	<u>-</u>	<u>(7,234,114)</u>
Total accumulated depreciation	<u>(12,596,977)</u>	<u>(809,259)</u>	<u>-</u>	<u>(13,403,236)</u>
Total capital assets being depreciated, net	<u>26,251,968</u>	<u>(765,448)</u>	<u>-</u>	<u>25,486,520</u>
Business-type activities capital assets, net	<u>\$29,364,227</u>	<u>\$ 4,714,993</u>	<u>\$ -</u>	<u>\$34,079,220</u>

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 70,544
Public safety	48,483
Public works	1,809
Highways and streets	922,547
Recreation and culture	56,409
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>87,304</u>
Total depreciation expense - governmental activities	<u>\$1,187,096</u>
Business-type activities	
Water fund	\$ 279,538
Sewer fund	451,023
Storm Water fund	<u>75,698</u>
	<u>\$ 806,259</u>

Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated for Infrastructure	\$ 460,345	\$ -	\$ -	\$ 460,345
Less accumulated depreciation for Infrastructure	<u>(138,103)</u>	<u>(18,414)</u>	<u>-</u>	<u>(156,517)</u>
Component unit activity capital assets, net	<u>\$ 322,242</u>	<u>\$ (18,414)</u>	<u>\$ -</u>	<u>\$ 303,828</u>

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

3-D. Interfund Receivables, Payables, Transfers and Advances

At June 30, 2006, the following schedule reports receivables and payables within the reporting entity.

Due to	Due From						Total
	General Fund	Non-Major Gov'tal	Water	Sewer	Storm Water	Internal Service	
General fund	\$ -	\$ 104	\$ 6,140	\$ 5,921	\$ 1,667	\$ -	\$ 13,832
Non-major governmental	2,308	112,357	-	-	-	-	114,665
Water	13,950	-	-	3,333	-	-	17,283
Sewer	13,950	-	-	-	-	-	13,950
Internal service	<u>109,785</u>	<u>58,853</u>	<u>24,210</u>	<u>12,692</u>	<u>13,727</u>	<u>14,068</u>	<u>233,335</u>
Total	<u>\$ 139,993</u>	<u>\$ 171,314</u>	<u>\$ 30,350</u>	<u>\$ 21,946</u>	<u>\$ 15,394</u>	<u>\$ 14,068</u>	<u>\$ 393,065</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and service are provided, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Also, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund.

The Water and Sewer funds each advanced the General fund proceeds for the purchase of a new fire truck during the 2000 fiscal year. The terms of the advance call for semi-annual payments of \$9,621 for each advance, plus interest at a rate of 1% over the applicable Consumer Price Index (CPI). The advances will be fully matured in the fiscal year ending June 30, 2015. The following amounts are currently outstanding:

<u>Advanced from</u>	<u>Advanced to General Fund</u>
Water fund	\$ 163,554
Sewer fund	<u>163,554</u>
Total	<u>\$ 327,108</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

For the year then ended, interfund transfers consisted of the following:

<u>Transfer Out</u>	<u>Transfer In</u>			<u>Total</u>
	<u>Non-Major Governmental</u>	<u>Internal Water</u>	<u>Service</u>	
General fund	\$ 919,588	\$ -	\$ 126,500	\$1,046,088
Non-major governmental	<u>112,357</u>	<u>1,347</u>	<u>-</u>	<u>113,704</u>
Total	<u>\$1,031,945</u>	<u>\$ 1,347</u>	<u>\$ 126,500</u>	<u>\$1,159,792</u>

3-E. Long-term Debt

General obligation bonds. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government were \$19,995,000 to finance the repair and/or reconstruction of infrastructure assets of the City.

<u>General Obligations Bonds</u>	<u>Interest Rate</u>	<u>Amount</u>
Governmental activities		
1999 unlimited tax obligations	4.0% - 5.5%	\$ 1,550,000
2001 unlimited tax obligations	4.0% - 6.0%	2,650,000
2002 unlimited tax obligations	4.0% - 5.1%	950,000
2004 water plant bond	3.0% - 4.7%	9,000,000
2005 water plant bond	3.05% - 4.35%	<u>5,000,000</u>
		<u>\$ 19,150,000</u>

Special assessment bonds. The City also issued \$2,000,000 of special assessment debt in prior years for the construction of residential developments and sewer improvements. These bonds will be repaid from amounts levied against the property owners benefited by this construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government must provide resources to cover the deficiency until other resources are received.

<u>Special Assessment Bonds</u>	<u>Interest Rate</u>	<u>Amount</u>
Governmental activities		
1996 St. Clair Drive	5.9% - 6.0%	\$ 258,000

CITY OF NEW BALTIMORE, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for general obligation bonds are as follows:

Governmental Activities		
<u>Years</u>	<u>Principal</u>	<u>Premium</u>
2007	\$ 400,000	\$ 808,406
2008	425,000	791,281
2009	500,000	774,956
2010	575,000	755,631
2011	625,000	733,381
2012-2016	3,850,000	3,250,375
2017-2021	4,950,000	2,319,350
2022-2026	3,925,000	1,331,294
2027-2030	<u>3,900,000</u>	<u>370,238</u>
	<u>\$ 19,150,000</u>	<u>\$ 11,134,912</u>

Annual debt service requirements to maturity for special assessment obligation bonds are as follows:

Governmental Activities		
<u>Year</u>	<u>Principal</u>	<u>Interest and Premium</u>
2007	<u>\$ 258,000</u>	<u>\$ 7,579</u>

Component Unit. During prior fiscal years, the Downtown Development Authority secured a loan in the amount of \$189,772 with a fixed interest rate of 4.260% for defeasance of outstanding tax increment revenue bonds with an average interest rate of 5.5%. The transaction resulted in a reduction of future cash flows by \$35,386.

Annual debt service requirements on the component unit loan is as follows:

Component Unit		
<u>Year</u>	<u>Principal</u>	<u>Interest and Premium</u>
2007	\$ 19,396	\$ 4,378
2008	20,234	3,541
2009	21,100	2,674
2010	22,020	1,755
2011	<u>18,623</u>	<u>-</u>
	<u>\$ 101,373</u>	<u>\$ 12,348</u>

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Primary Government</u>					
Governmental activities:					
General obligation bonds	\$19,375,000	\$ -	\$ (225,000)	\$19,150,000	\$ 400,000
Special assessment bonds	502,000	-	(244,000)	258,000	258,000
Accrued compensated absences	<u>108,650</u>	<u>78,638</u>	<u>-</u>	<u>187,288</u>	<u>-</u>
Total governmental activities	<u>\$19,985,650</u>	<u>\$ 78,638</u>	<u>\$ (469,000)</u>	<u>\$19,595,288</u>	<u>\$ 658,000</u>
Business-type activities:					
Accrued compensated absences	<u>\$ 46,935</u>	<u>\$ 7,673</u>	<u>\$ -</u>	<u>\$ 54,608</u>	<u>\$ -</u>
<u>Component Units:</u>					
Bond defeasance bank loan	<u>\$ 123,499</u>	<u>\$ -</u>	<u>\$ (22,126)</u>	<u>\$ 101,373</u>	<u>\$ 19,396</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

NOTE 4 – OTHER INFORMATION

4-A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City is a member of the Michigan Municipal League sponsored self-insurance/public entity risk pool for general liability and property insurance; and the Michigan Municipal Workers Compensation Fund. The City pays annual premiums to the respective pools that is based on City's experience rating. The agreements for the formation of the Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers' Compensation fund provide that the pools will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of limitations imposed by the pool.

General Liability and Property. The Michigan Municipal Liability and Property Fund provides coverage of up to \$10 million per occurrence for general, public officials, law enforcement and automobile claims. Property coverage is by classification ranging between \$19 thousand to \$21 million in claims with a deductible of \$1 thousand dollars.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Workers' Compensation. The Michigan Municipal Workers' Compensation Fund provides coverage of all claims incurred up to a maximum of \$500 thousand per occurrence.

Insurance settlements have not exceeded insurance coverage for either fund in any of the past three years. As such, no accrual for incurred but not reported claims has been established. The Michigan Municipal Liability and Property Fund and the Michigan Municipal Workers' Compensation Fund have published their own financial reports, which can be obtained by contacting the management of each pool.

4-B. Property Taxes

The government's property taxes are levied each July 1st on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by September 15th. As of March 1st of the succeeding year, unpaid real property taxes are sold to and collected by Macomb County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2005 levy, including industrial facilities was \$409,429,692. The government's general operating tax rate for fiscal year 2005-06 was 9.8893 mills with an additional 1.3528 mills for the library, and 3.1702 for various City debt.

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

4-C. Commitments and Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The City has entered into construction contract commitments with Barton Malow Company for the construction of the City's water plant and James P Contracting for Alfred Street road improvements. Total contracts awarded amounted to \$7,320,233 of which the City has paid or retained \$6,616,427 as of fiscal year end.

4-D. Benefits

New Baltimore Employees Retirement System

Plan Description

The City of New Baltimore Retirement System is a single-employer defined benefit pension plan administered by the City that covers all full-time municipal employees. The requirements of the State Constitution and the City Charter assign the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

Summary of Significant Accounting Policies

The City of New Baltimore Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Contributions

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute an actuarially determined rate; the current rate is 11.75% of annual covered payroll. Contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of the system are financed through investment earnings.

Membership of the retirement system consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	23
Active and inactive members	<u>61</u>
Total	<u>84</u>

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

The City's annual pension cost and net pension obligation to the City of New Baltimore Employee's Retirement System for the current year were as follows:

Annual required contribution/pension cost	\$ 364,977
Contribution made	(364,977)
Increase in net pension obligation	-
Net pension obligation, beginning of year	-
Net pension obligation, end of year	<u>\$ -</u>

Three-Year Trend Information

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2004	\$ 273,144	100%	\$ -
June 30, 2005	362,440	100%	-
June 30, 2006	364,977	100%	-

Actuarial Methods and Assumptions

Valuation Date	June 30, 2005
Actuarial Cost Method	Entry age normal cost
Amortization method	Level percent of payroll
Remaining Amortization Period	10 - 26*
Assets Valuation Method	
Smoothed Market	4 years
Actuarial Assumptions:	
Investment Rate of Return	7.0%
Additional Projected Salary increase	5.0 - 8.0%
Assumed payroll growth	5.0%
Cost of Living Adjustment	N/A

- * Combined liability is being amortized over a period of 17 years, with 10 years remaining. Gains and losses are being amortized over a perpetual 10 years. Liabilities created by a plan amendment are amortized over a 30-year basis from the date established, with 26 years remaining.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Other Postemployment Benefits

The City also provides postemployment health care benefits, as per the requirements of certain agreements and union contracts for certain retirees and their dependents. The City currently has 7 retirees participating in the plan. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with a 25% contribution required from retirees. The City purchases Medicare supplemental insurance for retirees eligible for Medicare, with no contribution required from the retiree and a 25% contribution from dependents. The City maintains a Retiree Health Care Fund to accumulate, invest and purchase insurance premiums for retirees. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. During the current fiscal year, expenditures amounted to \$95,260. Benefits under the Plan are administered under a third party agreement with Blue Cross Blue Shield of Michigan. The Mayor and City Council has the authority to establish and amend benefit provisions.

At June 30, 2005, the date of the latest actuarial valuation, participants in the plan consisted of:

Retired members and beneficiaries:

Under age 65	8
Age 65 and over	<u>7</u>
Total	15

The June 30, 2005 actuarial valuation identified the required employer contribution rate as 12.15% to 22.16% of covered payroll, depending on the assumption set (optimistic, intermediate or pessimistic). During the current fiscal year, City and employee contributions totaled \$135,974 and \$16,218, respectively.

The benefit obligation represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to June 30. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and dependents (as defined by the Plan) and (2) active employees and their beneficiaries and dependents after retirement from service. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical insurance premium-cost data to estimate future annual premium costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

CITY OF NEW BALTIMORE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2005. Significant actuarial assumptions used in determining the Plan's unfunded accrued liability included (a) a rate of return on the investment of present and future assets of 7.0% per year compounded annually, (b) projected salary increases of 5.0 - 8.0% per year compounded annually, attributable to inflation, and (c) health care cost increases of 5.0 - 15.0% per year (based on assumption set).

The Plan's unfunded accrued liability, which was determined by an actuary, is as follows at June 30, 2005, the date of the latest actuarial valuation:

	<u>Optimistic</u>	<u>Intermediate</u>	<u>Pessimistic</u>
Retirees and beneficiaries			
Present active members	\$1,409,967	\$1,815,081	\$2,274,060
Value of expected future benefit payments	4,810,236	6,531,353	8,621,062
Less: Value of future normal costs	<u>(1,660,966)</u>	<u>2,281,039</u>	<u>(3,049,741)</u>
Total accrued liability	4,559,237	6,065,395	7,845,381
Valuation assets	<u>(525,022)</u>	<u>(525,022)</u>	<u>(525,022)</u>
Unfunded accrued liability	<u>\$4,034,215</u>	<u>\$5,540,373</u>	<u>\$7,320,359</u>

Net assets available to fund this Plan amount to \$619,144 at June 30, 2006.

4-E. Restatements

For the City's water fund, an adjustment was made to eliminate a prior year receivable. For the fiscal year ended June 30, 2005, \$44,000 was received as a grant for the Alfred Street Watermain Project. However, this was also recorded as a year-end receivable, thereby, recording the revenue twice. The net effect of this error caused the City's assets and revenues to be overstated. This error has been corrected and had the following effect on the beginning net assets:

Beginning net assets, as previously reported	\$ 25,456,825
Prior period adjustment	<u>(44,000)</u>
Beginning net assets, as restated	<u>\$ 25,412,825</u>

* * * * *

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF NEW BALTIMORE, MICHIGAN

Required Supplementary Information (Unaudited)

Defined Benefit Pension Trust - New Baltimore Employees Retirement System

Trend Information

Schedule of Funding Progress (in thousands)							
Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)	
2001	\$ 4,625	\$ 5,425	\$ 800	\$ 85.2	\$ 2,108	38.0	%
2002	4,928	5,890	962	83.7	2,300	41.8	
2003	5,215	6,517	1,302	80.0	2,525	51.5	
2004	5,606	7,043	1,437	79.6	2,555	56.2	
2005	6,119	7,924	1,805	77.2	2,672	67.6	

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES**

CITY OF NEW BALTIMORE, MICHIGAN

Combining Balance Sheet Non-Major Governmental Funds June 30, 2006

	Special Revenue			
	Major Streets	Local Streets	Cemetery Operating	Cemetery Land
Assets				
Cash and cash equivalents	\$ 322,347	\$ 43,766	\$ 30,266	\$ 91,842
Receivables:				
Taxes receivable	-	-	-	-
Interest receivable	2,776	427	-	-
Due from other funds	-	97,876	14,481	-
Due from other governments	63,945	31,622	-	-
Investments	239,419	51,703	-	-
Prepaid expenditures	-	-	-	-
Total assets	\$ 628,487	\$ 225,394	\$ 44,747	\$ 91,842
Liabilities				
Accounts payable	\$ 4,071	\$ 6,070	\$ -	\$ -
Due to other funds	103,137	24,082	28,421	-
Due to other governments	-	-	-	-
Accrued liabilities	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	107,208	30,152	28,421	-
Fund balance:				
Reserved:				
Debt service	-	-	-	-
Prepays	-	-	-	-
Perpetual care	-	-	-	-
Unreserved, undesignated	521,279	195,242	16,326	91,842
Total fund balances	521,279	195,242	16,326	91,842
Total liabilities and fund balance	\$ 628,487	\$ 225,394	\$ 44,747	\$ 91,842

Special Revenue				
<u>Library</u>	<u>Building Inspection</u>	<u>Public Improvement</u>	<u>Drug Law Enforcement</u>	<u>Burke Estate</u>
\$ 1,038	\$ 115,192	\$ 1,587,584	\$ 13,235	\$ 1,043
12,104	-	-	-	-
13,904	1,337	4,385	42	60
-	2,308	-	-	-
-	-	-	-	-
602,402	126,971	273,035	30,000	25,000
2,966	3,378	-	-	-
<u>\$ 632,414</u>	<u>\$ 249,186</u>	<u>\$ 1,865,004</u>	<u>\$ 43,277</u>	<u>\$ 26,103</u>
\$ 11,513	\$ 3,261	\$ -	\$ -	\$ -
710	483	-	-	-
-	-	206	-	-
4,294	5,628	-	-	-
12,104	-	-	-	-
<u>28,621</u>	<u>9,372</u>	<u>206</u>	<u>-</u>	<u>-</u>
-	-	-	-	-
2,966	3,378	-	-	-
-	-	-	-	-
600,827	236,436	1,864,798	43,277	26,103
<u>603,793</u>	<u>239,814</u>	<u>1,864,798</u>	<u>43,277</u>	<u>26,103</u>
<u>\$ 632,414</u>	<u>\$ 249,186</u>	<u>\$ 1,865,004</u>	<u>\$ 43,277</u>	<u>\$ 26,103</u>

CITY OF NEW BALTIMORE, MICHIGAN

Combining Balance Sheet Non-Major Governmental Funds (Concluded) June 30, 2006

	Permanent Fund	Debt Service		
		1996 St. Clair Dr. Special Assessment	1978 Drainage District	1993 Debt Service
	Perpetual Care			
Assets				
Cash and cash equivalents	\$ 213,150	\$ 179,805	\$ 2,339	\$ -
Receivables:				
Taxes receivable	-	-	-	-
Interest receivable	1,331	289	-	-
Due from other funds	-	-	-	-
Due from other governments	-	-	-	-
Investments	-	35,000	-	-
Prepaid expenditures	-	-	-	-
Total assets	<u>\$ 214,481</u>	<u>\$ 215,094</u>	<u>\$ 2,339</u>	<u>\$ -</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	14,481	-	-	-
Due to other governments	-	-	-	-
Accrued liabilities	-	-	-	-
Deferred revenue	-	-	-	-
Total liabilities	<u>14,481</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance				
Reserved:				
Debt service	-	215,094	2,339	-
Prepays	-	-	-	-
Perpetual care	200,000	-	-	-
Unreserved, undesignated	-	-	-	-
Total fund balances	<u>200,000</u>	<u>215,094</u>	<u>2,339</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 214,481</u>	<u>\$ 215,094</u>	<u>\$ 2,339</u>	<u>\$ -</u>

Debt Service				
1999 Unlimited Tax	2001 Unlimited Tax	2002 Unlimited Tax	2005 Unlimited Tax	Total
\$ 776	\$ 512	\$ 925	\$ 117,673	\$ 2,721,493
3,813	5,061	1,596	9,194	31,768
831	419	287	1,020	27,108
-	-	-	-	114,665
-	-	-	-	95,567
87,000	46,000	30,000	-	1,546,530
-	-	-	-	6,344
<u>\$ 92,420</u>	<u>\$ 51,992</u>	<u>\$ 32,808</u>	<u>\$ 127,887</u>	<u>\$ 4,543,475</u>
\$ -	\$ -	\$ -	\$ -	\$ 24,915
-	-	-	-	171,314
-	-	-	-	206
-	-	-	-	9,922
3,813	5,061	1,596	9,194	31,768
3,813	5,061	1,596	9,194	238,125
88,607	46,931	31,212	118,693	502,876
-	-	-	-	6,344
-	-	-	-	200,000
-	-	-	-	3,596,130
<u>88,607</u>	<u>46,931</u>	<u>31,212</u>	<u>118,693</u>	<u>4,305,350</u>
<u>\$ 92,420</u>	<u>\$ 51,992</u>	<u>\$ 32,808</u>	<u>\$ 127,887</u>	<u>\$ 4,543,475</u>

CITY OF NEW BALTIMORE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances Non-Major Governmental Funds For the Year Ended June 30, 2006

	Special Revenue			
	Major Streets	Local Streets	Cemetery Operating	Cemetery Land
Revenues				
Property taxes	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-
Licenses and permits	-	-	-	-
State grants and reimbursements	391,505	191,801	-	-
Charges for services	-	90	10,150	-
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Investment earnings	14,042	4,065	212	2,693
Other	-	-	-	-
Total revenues	<u>405,547</u>	<u>195,956</u>	<u>10,362</u>	<u>2,693</u>
Expenditures				
Current:				
General government	-	-	78,927	-
Public safety	-	-	-	-
Highways and streets	83,440	248,109	-	-
Recreation and culture	-	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>83,440</u>	<u>248,109</u>	<u>78,927</u>	<u>-</u>
Revenues over (under) expenditures	<u>322,107</u>	<u>(52,153)</u>	<u>(68,565)</u>	<u>2,693</u>
Other financing sources (uses)				
Transfers in	-	97,876	54,481	-
Transfers out	<u>(97,876)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(97,876)</u>	<u>97,876</u>	<u>54,481</u>	<u>-</u>
Net change in fund balances	224,231	45,723	(14,084)	2,693
Fund balances, beginning of year	<u>297,048</u>	<u>149,519</u>	<u>30,410</u>	<u>89,149</u>
Fund balances, end of year	<u><u>\$ 521,279</u></u>	<u><u>\$ 195,242</u></u>	<u><u>\$ 16,326</u></u>	<u><u>\$ 91,842</u></u>

Special Revenue				
Library	Building Inspection	Public Improvements	Drug Law Enforcement	Burke Estate
\$ 537,327	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	183,918	-	-	-
4,567	-	-	-	-
4,990	-	-	-	-
6,203	6,242	-	28,598	-
24,922	-	-	-	-
29,339	10,040	47,420	165	1,094
9,257	-	-	-	-
<u>616,605</u>	<u>200,200</u>	<u>47,420</u>	<u>28,763</u>	<u>1,094</u>
-	-	-	-	-
-	244,637	-	1,127	-
-	-	-	-	-
462,427	-	-	-	-
-	-	-	-	-
-	-	-	-	-
51,950	-	222,457	-	-
<u>514,377</u>	<u>244,637</u>	<u>222,457</u>	<u>1,127</u>	<u>-</u>
<u>102,228</u>	<u>(44,437)</u>	<u>(175,037)</u>	<u>27,636</u>	<u>1,094</u>
-	-	879,588	-	-
-	-	-	-	-
-	-	879,588	-	-
102,228	(44,437)	704,551	27,636	1,094
501,565	284,251	1,160,247	15,641	25,009
<u><u>\$ 603,793</u></u>	<u><u>\$ 239,814</u></u>	<u><u>\$ 1,864,798</u></u>	<u><u>\$ 43,277</u></u>	<u><u>\$ 26,103</u></u>

CITY OF NEW BALTIMORE, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Non-Major Governmental Funds (Concluded)

For the Year Ended June 30, 2006

	Permanent Fund	Debt Service		
		1996		
	Perpetual Care	St. Clair Dr. Special Assessment	1978 Drainage District	1993 Debt Service
Revenues				
Property taxes	\$ -	\$ -	\$ 3	\$ -
Special assessments	-	18,516	-	-
Licenses and permits	-	-	-	-
State grants and reimbursements	-	-	-	-
Charges for services	5,200	-	-	-
Fines and forfeitures	-	-	-	-
Contributions	-	-	-	-
Investment earnings	9,281	10,858	18	-
Other	-	-	-	-
Total revenues	<u>14,481</u>	<u>29,374</u>	<u>21</u>	<u>-</u>
Expenditures				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Highways and streets	-	-	-	-
Recreation and culture	-	-	-	-
Debt service:				
Principal	-	244,000	-	-
Interest	-	22,325	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>-</u>	<u>266,325</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>14,481</u>	<u>(236,951)</u>	<u>21</u>	<u>-</u>
Other financing sources (uses)				
Transfers in	-	-	-	-
Transfers out	<u>(14,481)</u>	<u>-</u>	<u>-</u>	<u>(1,347)</u>
Total other financing sources (uses)	<u>(14,481)</u>	<u>-</u>	<u>-</u>	<u>(1,347)</u>
Net change in fund balances	-	(236,951)	21	(1,347)
Fund balances, beginning of year	<u>200,000</u>	<u>452,045</u>	<u>2,318</u>	<u>1,347</u>
Fund balances, end of year	<u><u>\$ 200,000</u></u>	<u><u>\$ 215,094</u></u>	<u><u>\$ 2,339</u></u>	<u><u>\$ -</u></u>

Debt Service				
1999 Unlimited Tax	2001 Unlimited Tax	2002 Unlimited Tax	2005 Unlimited Tax	Total
\$ 171,897	\$ 228,097	\$ 71,934	\$ 805,675	\$ 1,814,933
-	-	-	-	18,516
-	-	-	-	183,918
-	-	-	-	587,873
-	-	-	-	20,430
-	-	-	-	41,043
-	-	-	-	24,922
5,809	4,549	1,963	8,200	149,748
-	-	-	-	9,257
<u>177,706</u>	<u>232,646</u>	<u>73,897</u>	<u>813,875</u>	<u>2,850,640</u>
-	-	-	-	78,927
-	-	-	-	245,764
-	-	-	-	331,549
-	-	-	-	462,427
100,000	100,000	25,000	-	469,000
72,200	128,131	46,688	733,235	1,002,579
-	-	-	-	274,407
<u>172,200</u>	<u>228,131</u>	<u>71,688</u>	<u>733,235</u>	<u>2,864,653</u>
<u>5,506</u>	<u>4,515</u>	<u>2,209</u>	<u>80,640</u>	<u>(14,013)</u>
-	-	-	-	1,031,945
-	-	-	-	(113,704)
-	-	-	-	918,241
5,506	4,515	2,209	80,640	904,228
83,101	42,416	29,003	38,053	3,401,122
<u>\$ 88,607</u>	<u>\$ 46,931</u>	<u>\$ 31,212</u>	<u>\$ 118,693</u>	<u>\$ 4,305,350</u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Major Streets
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
State grants and reimbursements	\$ 286,447	\$ 286,447	\$ 391,505	\$ 105,058
Investment earnings	2,000	2,000	14,042	12,042
Total revenues	<u>288,447</u>	<u>288,447</u>	<u>405,547</u>	<u>117,100</u>
Expenditures				
Street maintenance	68,806	68,806	31,421	37,385
Signs and markings	15,500	15,500	9,385	6,115
Snow removal	<u>102,000</u>	<u>102,000</u>	<u>42,634</u>	<u>59,366</u>
Total expenditures	<u>186,306</u>	<u>186,306</u>	<u>83,440</u>	<u>102,866</u>
Revenues over (under) expenditures	102,141	102,141	322,107	219,966
Other financing sources (uses)				
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>(97,876)</u>	<u>2,124</u>
Net change in fund balances	2,141	2,141	224,231	222,090
Fund balance, beginning of year	<u>297,048</u>	<u>297,048</u>	<u>297,048</u>	<u>-</u>
Fund balance, end of year	<u>\$ 299,189</u>	<u>\$ 299,189</u>	<u>\$ 521,279</u>	<u>\$ 222,090</u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Local Streets
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
State grants and reimbursements	\$ 150,744	\$ 150,744	\$ 191,801	\$ 41,057
Charges for services	-	-	90	90
Investment earnings	2,000	2,000	4,065	2,065
Total revenues	<u>152,744</u>	<u>152,744</u>	<u>195,956</u>	<u>43,212</u>
Expenditures				
Street maintenance	132,306	132,306	82,984	49,322
Signs and markings	11,500	11,500	25,984	(14,484)
Snow removal	123,000	123,000	139,141	(16,141)
Total expenditures	<u>266,806</u>	<u>266,806</u>	<u>248,109</u>	<u>18,697</u>
Revenues over (under) expenditures	(114,062)	(114,062)	(52,153)	61,909
Other financing sources (uses)				
Transfers in	<u>100,000</u>	<u>100,000</u>	<u>97,876</u>	<u>(2,124)</u>
Net change in fund balances	(14,062)	(14,062)	45,723	59,785
Fund balance, beginning of year	<u>149,519</u>	<u>149,519</u>	<u>149,519</u>	<u>-</u>
Fund balance, end of year	<u>\$ 135,457</u>	<u>\$ 135,457</u>	<u>\$ 195,242</u>	<u>\$ 59,785</u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Cemetery Operating
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Charges for services	\$ 12,000	\$ 12,000	\$ 10,150	\$ (1,850)
Investment earnings	200	200	212	12
Total revenues	<u>12,200</u>	<u>12,200</u>	<u>10,362</u>	<u>(1,838)</u>
Expenditures				
Operating expenditures	<u>54,630</u>	<u>54,630</u>	<u>78,927</u>	<u>(24,297)</u>
Revenues over (under) expenditures	(42,430)	(42,430)	(68,565)	(26,135)
Other financing sources (uses)				
Transfers in	<u>43,000</u>	<u>43,000</u>	<u>54,481</u>	<u>11,481</u>
Net change in fund balances	570	570	(14,084)	(14,654)
Fund balance, beginning of year	<u>30,410</u>	<u>30,410</u>	<u>30,410</u>	<u>-</u>
Fund balance, end of year	<u>\$ 30,980</u>	<u>\$ 30,980</u>	<u>\$ 16,326</u>	<u>\$ (14,654)</u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Cemetery Land
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Investment earnings	\$ 1,250	\$ 1,250	\$ 2,693	\$ 1,443
Fund balance, beginning of year	<u>89,149</u>	<u>89,149</u>	<u>89,149</u>	<u>-</u>
Fund balance, end of year	<u>\$ 90,399</u>	<u>\$ 90,399</u>	<u>\$ 91,842</u>	<u>\$ 1,443</u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Library
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property taxes	\$ 546,801	\$ 546,801	\$ 537,327	\$ (9,474)
State aid	5,000	5,000	4,567	(433)
Fines and forfeitures	2,500	2,500	6,203	3,703
Charges for services	3,300	3,300	4,990	1,690
Donations	15,200	15,200	24,922	9,722
Interest earnings	13,100	13,100	29,339	16,239
Other	5,250	5,250	9,257	4,007
Total revenues	<u>591,151</u>	<u>591,151</u>	<u>616,605</u>	<u>25,454</u>
Expenditures				
Operating expenditures	524,174	524,174	462,427	61,747
Capital outlay	60,000	60,000	51,950	8,050
Total expenditures	<u>584,174</u>	<u>584,174</u>	<u>514,377</u>	<u>69,797</u>
Net change in fund balances	6,977	6,977	102,228	95,251
Fund balance, beginning of year	<u>501,565</u>	<u>501,565</u>	<u>501,565</u>	<u>-</u>
Fund balance, end of year	<u>\$ 508,542</u>	<u>\$ 508,542</u>	<u>\$ 603,793</u>	<u>\$ 95,251</u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Building Inspection
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Negative)</u>
Revenues				
Licenses and permits	\$ 212,000	\$ 212,000	\$ 183,918	\$ (28,082)
Fines and forfeitures	2,500	2,500	6,242	3,742
Investment earnings	5,500	5,500	10,040	4,540
Total revenues	<u>220,000</u>	<u>220,000</u>	<u>200,200</u>	<u>(19,800)</u>
Expenditures				
Operating expenditures	<u>268,359</u>	<u>268,359</u>	<u>244,637</u>	<u>23,722</u>
Net change in fund balances	(48,359)	(48,359)	(44,437)	3,922
Fund balance, beginning of year	<u>284,251</u>	<u>284,251</u>	<u>284,251</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 235,892</u></u>	<u><u>\$ 235,892</u></u>	<u><u>\$ 239,814</u></u>	<u><u>\$ 3,922</u></u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Public Improvements
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal revenue	\$ 170,000	\$ 170,000	\$ -	\$ (170,000)
Investment earnings	10,000	10,000	47,420	37,420
Total revenues	<u>180,000</u>	<u>180,000</u>	<u>47,420</u>	<u>(132,580)</u>
Expenditures				
Capital outlay	<u>794,261</u>	<u>813,261</u>	<u>222,457</u>	<u>590,804</u>
Revenues over (under) expenditures	(614,261)	(633,261)	(175,037)	458,224
Other financing sources (uses)				
Transfers in	<u>100,000</u>	<u>569,000</u>	<u>879,588</u>	<u>310,588</u>
Net change in fund balances	(514,261)	(64,261)	704,551	768,812
Fund balance, beginning of year	<u>1,160,247</u>	<u>1,160,247</u>	<u>1,160,247</u>	<u>-</u>
Fund balance, end of year	<u>\$ 645,986</u>	<u>\$1,095,986</u>	<u>\$1,864,798</u>	<u>\$ 768,812</u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Drug Law Enforcement
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Fines and forfeitures	\$ 1,500	\$ 1,500	\$ 28,598	\$ 27,098
Investment earnings	35	35	165	130
Total revenues	<u>1,535</u>	<u>1,535</u>	<u>28,763</u>	<u>27,228</u>
Expenditures				
Operating expenditures	<u>1,535</u>	<u>1,535</u>	<u>1,127</u>	<u>408</u>
Net change in fund balance	-	-	27,636	27,636
Fund balance, beginning of year	<u>15,641</u>	<u>15,641</u>	<u>15,641</u>	<u>-</u>
Fund balance, end of year	<u>\$ 15,641</u>	<u>\$ 15,641</u>	<u>\$ 43,277</u>	<u>\$ 27,636</u>

CITY OF NEW BALTIMORE, MICHIGAN
Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
Burke Estate
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
				Positive
				(Negative)
Revenues				
Investment earnings	\$ 275	\$ 275	\$ 1,094	\$ 819
Fund balance, beginning of year	<u>25,009</u>	<u>25,009</u>	<u>25,009</u>	<u>-</u>
Fund balance, end of year	<u>\$ 25,284</u>	<u>\$ 25,284</u>	<u>\$ 26,103</u>	<u>\$ 819</u>

CITY OF NEW BALTIMORE, MICHIGAN
Combining Statement of Net Assets
Internal Service Funds
June 30, 2006

	<u>Equipment</u>	<u>Department of Public Service</u>	<u>Retiree Health Care</u>	<u>Total</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 171,565	\$ -	\$ 25,662	\$ 197,227
Investments	224,739	-	572,031	796,770
Interest receivable	2,013	-	-	2,013
Due from other funds	8,215	212,083	13,037	233,335
Due from other governments	-	-	328	328
Inventory	-	20,171	-	20,171
Prepaid expenses	1,803	18,765	8,086	28,654
Total current assets	408,335	251,019	619,144	1,278,498
Noncurrent assets				
Capital assets, net of accumulated depreciation	413,633	270,482	-	684,115
Total assets	821,968	521,501	619,144	1,962,613
Liabilities				
Current liabilities				
Accounts payable	2,891	2,265	-	5,156
Due to other funds	11,832	2,236	-	14,068
Accrued liabilities	2,404	24,578	-	26,982
Total current liabilities	17,127	29,079	-	46,206
Long-term liabilities				
Accrued compensated absences	3,646	46,914	-	50,560
Total liabilities	20,773	75,993	-	96,766
Net Assets				
Investment in capital assets	413,633	270,482	-	684,115
Unrestricted	387,562	175,026	619,144	1,181,732
Total net assets	<u>\$ 801,195</u>	<u>\$ 445,508</u>	<u>\$619,144</u>	<u>\$1,865,847</u>

CITY OF NEW BALTIMORE, MICHIGAN
Combining Statement of Revenues, Expenses
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended June 30, 2006

	<u>Equipment</u>	<u>Department of Public Service</u>	<u>Retiree Health Care</u>	<u>Total</u>
Operating revenues				
Charges for services	\$ 244,709	\$ 829,294	\$ -	\$ 1,074,003
Employer contributions	-	-	135,974	135,974
Employee contributions	-	-	16,218	16,218
Total operating revenues	<u>244,709</u>	<u>829,294</u>	<u>152,192</u>	<u>1,226,195</u>
Operating expenses				
Services	228,865	837,978	95,260	1,162,103
Depreciation	<u>75,229</u>	<u>12,075</u>	<u>-</u>	<u>87,304</u>
Total operating expenses	<u>304,094</u>	<u>850,053</u>	<u>95,260</u>	<u>1,249,407</u>
Operating income (loss)	<u>(59,385)</u>	<u>(20,759)</u>	<u>56,932</u>	<u>(23,212)</u>
Non-operating revenues				
Investment earnings	18,848	2,343	22,104	43,295
Appreciation in fair value of investments	<u>-</u>	<u>-</u>	<u>15,085</u>	<u>15,085</u>
Total non-operating revenues	<u>18,848</u>	<u>2,343</u>	<u>37,189</u>	<u>58,380</u>
Income (loss) before transfers	<u>(40,537)</u>	<u>(18,416)</u>	<u>94,121</u>	<u>35,168</u>
Transfers in	<u>-</u>	<u>126,500</u>	<u>-</u>	<u>126,500</u>
Change in net assets	<u>(40,537)</u>	<u>108,084</u>	<u>94,121</u>	<u>161,668</u>
Net assets, beginning of year	<u>841,732</u>	<u>337,424</u>	<u>525,023</u>	<u>1,704,179</u>
Net assets, end of year	<u><u>\$ 801,195</u></u>	<u><u>\$ 445,508</u></u>	<u><u>\$ 619,144</u></u>	<u><u>\$ 1,865,847</u></u>

CITY OF NEW BALTIMORE, MICHIGAN

Statement of Cash Flows Internal Service Funds For the Year Ended June 30, 2006

	<u>Equipment</u>	<u>Department of Public Service</u>	<u>Retiree Health Care</u>	<u>Total</u>
Cash flows from operating activities				
Cash received from interfund services	\$ 273,774	\$ 709,289	\$ 149,390	\$ 1,132,453
Cash payments to employees	(75,348)	(141,452)	-	(216,800)
Cash payments to suppliers for goods and services	(152,049)	(701,534)	(97,593)	(951,176)
Net cash provided (used) by operating activities	<u>46,377</u>	<u>(133,697)</u>	<u>51,797</u>	<u>(35,523)</u>
Cash flows from non-capital financing activities				
Transfers from other funds	<u>-</u>	<u>126,500</u>	<u>-</u>	<u>126,500</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	<u>(147,087)</u>	<u>-</u>	<u>-</u>	<u>(147,087)</u>
Cash flows from investing activities				
Purchase of investments	(119,973)	-	(196,499)	(316,472)
Investment income	<u>17,800</u>	<u>2,345</u>	<u>37,189</u>	<u>57,334</u>
Net cash provided by investing activities	<u>(102,173)</u>	<u>2,345</u>	<u>(159,310)</u>	<u>(259,138)</u>
Net increase (decrease) in cash and cash equivalents	(202,883)	(4,852)	(107,513)	(315,248)
Cash and cash equivalents, beginning of year	<u>374,448</u>	<u>4,852</u>	<u>133,175</u>	<u>512,475</u>
Cash and cash equivalents, end of year	<u>\$ 171,565</u>	<u>\$ -</u>	<u>\$ 25,662</u>	<u>\$ 197,227</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income	\$ (59,385)	\$ (20,759)	\$ 56,932	\$ (23,212)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation	75,229	12,075	-	87,304
Changes in assets and liabilities:				
Accounts receivable	-	9	-	9
Due from other funds	17,499	(120,563)	(2,802)	(105,866)
Inventory	-	(12,446)	-	(12,446)
Prepaid items	(76)	(281)	(2,333)	(2,690)
Accounts payable	249	(2,669)	-	(2,420)
Due to other funds	11,566	549	-	12,115
Accrued liabilities	502	5,387	-	5,889
Accrued compensated absences	<u>793</u>	<u>5,001</u>	<u>-</u>	<u>5,794</u>
Net cash provided (used) by operating activities	<u>\$ 46,377</u>	<u>\$ (133,697)</u>	<u>51,797</u>	<u>\$ (35,523)</u>

CITY OF NEW BALTIMORE, MICHIGAN
Downtown Development Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2006

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 89,032	\$ -	\$ 89,032
Capital assets:			
Depreciable, net	-	303,828	303,828
Total assets	\$ 89,032	303,828	392,860
Liabilities			
Accrued liabilities	\$ -	3,284	3,284
Long-term liabilities			
Due within one year	-	19,396	19,396
Due after one year	-	81,977	81,977
Total Liabilities	-	104,657	104,657
Fund Balance/Net Assets			
Undesignated	89,032	(89,032)	-
Total liabilities and fund balance	\$ 89,032		
Net Assets			
Invested in capital assets, net of related debt		202,455	202,455
Unrestricted		85,748	85,748
Total net assets		\$ 288,203	\$ 288,203

CITY OF NEW BALTIMORE, MICHIGAN
Downtown Development Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 55,862	\$ -	\$ 55,862
Investment earnings	296	-	296
	<u>56,158</u>	<u>-</u>	<u>56,158</u>
Expenditures / Expenses			
Principal	22,126	(22,126)	-
Interest	5,334	(719)	4,615
Depreciation	-	18,414	18,414
Other	798	-	798
	<u>28,258</u>	<u>(4,431)</u>	<u>23,827</u>
Net change in fund balance/net assets	27,900	4,431	32,331
Beginning fund balance/net assets	<u>61,132</u>	<u>194,740</u>	<u>255,872</u>
Ending fund balance/net assets	<u><u>\$ 89,032</u></u>	<u><u>\$ 199,171</u></u>	<u><u>\$ 288,203</u></u>

CITY OF NEW BALTIMORE, MICHIGAN
Downtown Development Authority
Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Assets
June 30, 2006

Fund balance - Downtown Development Authority	\$ 89,032
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add: capital assets	460,345
Deduct: accumulated depreciation	(156,517)

Certain liabilities, such as notes payable, are not due and payable in the
current period and therefore are not reported in the funds.

Deduct: notes payable	(101,373)
Deduct: accrued interest	(3,284)

Net assets of component unit	<u>\$ 288,203</u>
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CITY OF NEW BALTIMORE, MICHIGAN
Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures
and Change in Fund Balance
to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - component unit	\$ 27,900
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Amounts reported for *governmental activities* in the statement of activities are different because:

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: change in accrued interest on long-term debt	719
Deduct: depreciation expense	(18,414)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	<u>22,126</u>
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Change in net assets of governmental activities	<u><u>\$ 32,331</u></u>
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CITY OF NEW BALTIMORE, MICHIGAN
Economic Development Corporation
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	<u>\$ 15,355</u>	<u>\$ -</u>	<u>\$ 15,355</u>
 Fund Balance/Net Assets			
Undesignated	<u>\$ 15,355</u>	<u>(15,355)</u>	<u>-</u>
 Net Assets			
Unrestricted		<u>\$ 15,355</u>	<u>\$ 15,355</u>

CITY OF NEW BALTIMORE, MICHIGAN
Economic Development Corporation
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Investment earnings	\$ 79	\$ -	\$ 79
Beginning fund balance/net assets	<u>15,276</u>	<u>-</u>	<u>15,276</u>
Ending fund balance/net assets	<u><u>\$ 15,355</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,355</u></u>

CITY OF NEW BALTIMORE, MICHIGAN
Local Development Financing Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
June 30, 2006

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 392,314	\$ -	\$ 392,314
Interest receivable	2,508	-	2,508
Total assets	<u>\$ 394,822</u>	<u>-</u>	<u>394,822</u>
Fund Balance/Net Assets			
Undesignated	<u>\$ 394,822</u>	<u>(394,822)</u>	<u>-</u>
Net Assets			
Unrestricted		394,822	394,822
Total net assets		<u>\$ 394,822</u>	<u>\$ 394,822</u>

CITY OF NEW BALTIMORE, MICHIGAN
Local Development Financing Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
For the Year Ended June 30, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 51,962	\$ -	\$ 51,962
Investment earnings	<u>13,693</u>	<u>-</u>	<u>13,693</u>
Total revenues	65,655	-	65,655
Expenditures / expenses			
Community and economic development	<u>16,624</u>	<u>-</u>	<u>16,624</u>
Net change in fund balance/ change in net assets	49,031	-	49,031
Beginning fund balance/net assets	<u>345,791</u>	<u>-</u>	<u>345,791</u>
Ending fund balance/net assets	<u><u>\$ 394,822</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 394,822</u></u>

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

September 26, 2006

To the Honorable Mayor and Council
City of New Baltimore, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of New Baltimore, Michigan* as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the *City of New Baltimore, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of New Baltimore, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, looped 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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September 26, 2006

To the Honorable Mayor and City Council
City of New Baltimore, Michigan

In planning and performing our audit of the financial statements of the ***City of New Baltimore, Michigan***, for the year ended June 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated September 26, 2006, on the financial statements of the ***City of New Baltimore, Michigan***.

The accompanying comments and recommendations are intended solely for the information and use of the Mayor and City Council, Audit Committee, Management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

We would like to thank the staff and management of the ***City of New Baltimore, Michigan*** for their assistance and cooperation in completing the audit.

Memorandum

1) BANK ACCOUNTS

During our procedures, we noted that the City has several bank accounts to segregate and maintain cash by individual fund.

Currently when the City receives cash, it accounts for the receipt in the appropriate fund associated City's accounting system. A deposit is prepared for each separate bank account in which money was received and physically deposited into the appropriate account.

All payroll disbursements are made through the General Fund on a check run. Amounts that are for funds other than the General Fund are automatically accounted for in the City's accounting system. Cash then must be physically transferred from the separate fund accounts to the General Fund to settle the accounts.

Accounts payable disbursements are also accounted for in the City's accounting software. A transfer must be made from each separate bank account to the accounts payable checking account (currently entitled General Fund checking).

Although we see how this process would have been of benefit in prior years, the current accounting system employed by the City provides a reasonable basis to leverage the pooling of the City's operating cash accounts.

Recommendation

We would recommend that the City consider using one pooled cash account for the City's operating cash instead of several (i.g. one for each fund) savings accounts. We believe that this will add more simplicity to the accounting and reconciliation of the City's cash, create the opportunity to leverage better interest rates on deposited cash as the pooled amount would be much larger than several smaller amounts, eliminate the use of "due to/due from" account transactions which must be manually prepared general ledger transactions, and finally would reduce the costs associated with bank fees in maintaining several bank accounts.